

Robinson+Cole

# Manufacturing Law Group

ROUNDTABLE DISCUSSION

MARCH 1, 2017



## Please Note

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This roundtable is designed to provide accurate information about the subject matter. However, it only provides general information and does not constitute legal advice. No attorney-client relationship has been created. If legal advice or other assistance is required, let us know directly.

# Preliminary Considerations

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- This platform should not be used for activities prohibited by antitrust law.
- Avoid discussions leading to a restriction, or coordination, of competition between or among attendees.
- Attendees should not share information, have discussions and/or make arrangements on, among other things, pricing, market conduct, terms of sale, individual manufacturing costs and costs of sale, output, or supplier or customer relations/allocation.

**Robinson+Cole**

# The Manufacturers' Guide to The Defend Trade Secrets Act of 2016

**MARCH 1, 2017**

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# The Defend Trade Secrets Act of 2016, 18 U.S.C. § 1832

Public Law 114–153  
114th Congress

## An Act

May 11, 2016  
[S. 1890]

Defend Trade  
Secrets Act of  
2016.  
18 USC 1 note.

To amend chapter 90 of title 18, United States Code, to provide Federal jurisdiction for the theft of trade secrets, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

### SECTION 1. SHORT TITLE.

This Act may be cited as the “Defend Trade Secrets Act of 2016”.

### SEC. 2. FEDERAL JURISDICTION FOR THEFT OF TRADE SECRETS.

(a) IN GENERAL.—Section 1836 of title 18, United States Code, is amended by striking subsection (b) and inserting the following:

“(b) PRIVATE CIVIL ACTIONS.—

“(1) IN GENERAL.—An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.

“(2) CIVIL SEIZURE.—

“(A) IN GENERAL.—

“(i) APPLICATION.—Based on an affidavit or verified complaint satisfying the requirements of this paragraph, the court may, upon ex parte application but only in extraordinary circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.

“(ii) REQUIREMENTS FOR ISSUING ORDER.—The court may not grant an application under clause (i) unless the court finds that it clearly appears from specific facts that—

“(I) an order issued pursuant to Rule 65 of the Federal Rules of Civil Procedure or another form of equitable relief would be inadequate to achieve the purpose of this paragraph because the party to which the order would be issued would evade, avoid, or otherwise not comply with such an order;

“(II) an immediate and irreparable injury will occur if such seizure is not ordered;

“(III) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered of granting the application and

# “Sense of Congress” (Section 5)

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**“It is the sense of Congress that –**

- (1) trade secret theft occurs in the United States and around the world;
- (2) **trade secret theft, wherever it occurs, harms companies that own the trade secrets and the employees of the companies . . . .**”

# Top 5 Takeaways for Manufacturers

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- (1) Ticket to Fed Court – But Read the Fine Print
- (2) Is Your Trade Secret a Trade Secret?
- (3) Remedies & Risks – Including Playing Cop
- (4) International Application
- (5) Immunity and Notice – Contract Review

# 1. Admission Ticket to Federal Court

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“In general.—An owner of a **trade secret** that is **misappropriated** may bring a civil action under this subsection if the trade secret is related to a **product or service used in, or intended for use in, interstate or foreign commerce.**”

# Read the Fine Print on That Ticket....

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## 2. Is Your Trade Secret a Trade Secret?

“all forms and types of financial, business, scientific, technical, economic, or engineering information, including **patterns**, plans, **compilations**, program devices, **formulas**, designs, prototypes, **methods**, **techniques**, **processes**, procedures, **programs**, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

- (A) the owner thereof has taken **reasonable measures to keep such information secret**; and
- (B) the information derives **independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable** through proper means by, another person who can obtain economic value from the disclosure or use of the information . . . .”

## 2. Two Steps to Trade Secret Status

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- **(1) SECRET:** reasonable measures to keep secret



- **(2) VALUE:** independent economic value from not being generally known or readily ascertainable

## 2: What is Misappropriation?

- “(A) acquisition of a TS of another by a person who knows or has reason to know that the TS was acquired by improper means; or
  - (B) “disclosure or use of a TS of another without express or implied consent by a person who –
    - (i) used improper means to acquire knowledge of the TS;
    - (ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was –
      - (I) derived from or through a person who had used improper means to acquire the trade secret;
      - (II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or
      - (III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret;
- .....”

## 2. Defenses & Carve Outs

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- **Carve Outs from Improper Means:**

- “includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage . . .”
- “improper means” does **not include** “reverse engineering, independent derivation, or any other lawful means of acquisition.”

- **3 Year Statute of Limitations:**

- from the date the misappropriation “is discovered or by the exercise of reasonable diligence should have been discovered”
- Works in continued course of conduct tolling— “a continuing misappropriation constitutes a single claim for misappropriation.”

# 3. Remedies & Risks

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## Plaintiffs' Potential Remedies-

- Injunction
  - Cannot “prevent a person from entering into an employment relationship”
  - Any conditions on employment must be based on evidence of threatened misappropriation - not inevitable disclosure
  - Cannot conflict with applicable State law re restraints on practice of “lawful profession, trade or business.”
- Actual damages
- Unjust enrichment “not addressed in computing damages for actual loss”
- Use of trade secret conditioned on reasonable royalty
- “Exemplary” damages – 2X actual damages if trade secret “willfully and maliciously misappropriated”
- Attorneys’ fees for bad faith or willful/malicious misappropriation\*\*\*

### 3. Remedies & Risks: Seizure / Playing Cop

In “extraordinary circumstances,” Court may order federal law enforcement to execute an *ex parte* seizure of “property necessary to prevent the propagation or dissemination of the trade secret” by the defendant:

1. Equitable relief inadequate – defendant “evade, avoid” or “comply”
2. “Immediate and irreparable injury”
3. Balancing of harms including harm to third parties
4. Likelihood of success (trade secret and misappropriation)
5. “Thief” has possession of the trade secret
6. Property to be seized and location – “reasonable particularity”
7. “Thief” would destroy/hide/make inaccessible if notice provided
8. Trade secret owner must not have “publicized the requested seizure”



### 3. Remedies & Risks: Attorney's Fees & Retaliation Cause of Action

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- **Attorney's Fees to Prevailing Party When:**
  - Misappropriation claims made in bad faith (circumstantial evidence)
  - Motion to Terminate Injunction made or opposed in bad faith
  - Trade Secret willfully or maliciously misappropriated
- **New Cause of Action for Wrongful Seizure**
  - Creates claim for damage caused by wrongful seizure (defendant or third party)
  - Damages: Lost profits, cost of materials, loss of good will, punitive damages when seizures sought in bad faith, attorneys fees' "unless court finds extenuating circumstances."

## 4. International Application

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- Economic Espionage Act applies to conduct outside the U.S. if:
  - Offender is U.S. citizen/permanent resident
  - Entity organized under laws of a U.S./state, or
  - “Act in furtherance of the offense was committed in the United States”
  - Still need Personal Jurisdiction



## 5. Immunity for Confidential Disclosure to Gov't or in Court Filing

“(1) **IMMUNITY** – An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that –

(A) is made –

(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and

(ii) solely for the purpose of reporting or investigating a suspected violation of law; or

(B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.”

“(2) **USE OF TRADE SECRET INFORMATION IN ANTI-RETALIATION LAWSUIT**

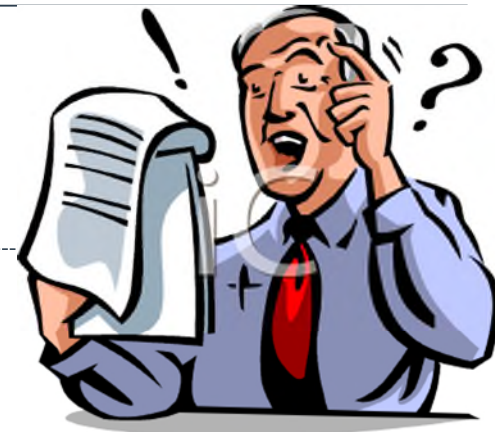
– An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.”

## 5. Action Item - Notice of Immunity

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- “An employer SHALL PROVIDE NOTICE” of immunity:
  - **CONTRACTS & AGREEMENTS:** “[I]n any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”
  - **EMPLOYEES/CONTRACTORS/CONSULTANTS:** “Employee” includes “any individual performing work as a contractor or consultant for an employer.”
  - **TIMING:** Applies to “contracts and agreements that are entered into or updated after the date of the enactment of this subsection” (May 11, 2016)
  - **NON-COMPLIANCE:** No exemplary damages or attorneys’ fees in an action against an “employee” to whom notice was not provided.

## 5. Contract Review!



- Agreements with contractors, employees, that govern the use of **trade secrets or confidential information**
  - **Contractor /Independent Contractor /Consultant Agreements**
  - **NDA's and Confidentiality Agreements**
  - **Employment, Separation, Severance, Non-Competes, Non-Solicitation Agreements**
  - **Portions of Employee Handbooks**
- Entered into **or updated** from May 11, 2016 forward
- May cross reference “**policy document . . .** that sets forth the employer’s reporting policy for a suspected violation of law.”

# Conversation on Best Practices

- Led by Leslie Shanley



# Thank You

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